

Message Text

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ACTION PM-07

INFO OCT-01 ARA-16 ISO-00 AID-20 CIAE-00 INR-10 NSAE-00

RSC-01 SS-20 SP-03 L-03 NSC-07 IGA-02 MC-02 EB-11

OMB-01 TRSE-00 DRC-01 /105 W
----- 109919

R 211507Z JUN 74

FM AMEMBASSY LIMA

TO SECSTATE WASHDC 659

SECDEF WASHDC

JCS WASHDC

USCINCSO QUARRY HTS CZ

S E C R E T LIMA 5010

E.O. 11652: GDS

TAGS: EGEN, MASS, PE

SUBJECT: SECURITY ASSISTANCE OBJECTIVES AND GUIDELINES FOR PERU

REF: A) STATE 31505; B) LIMA A-62 (CASP) OF MARCH 25; C) POM OF
FEBRUARY 13

1. IN RESPONSE TO REF A, THIS TELEGRAM SUMMARIZES BRIEFLY
SECURITY ASSISTANCE INFORMATION ALREADY CONTAINED IN REFS B
AND C. THE EMBASSY DID NOT RECEIVE THE MESSAGE PROMISED IN
PARA 7 REF A EXPLAINING THE RELATIONSHIP OF THIS PARTIALLY
DUPLICATIVE EXERCISE TO THE POM AND CASP. THIS TELEGRAM ALSO
EVALUATES THE IMPACT OF THIRD COUNTRY AND INTERNATIONAL
FINANCIAL INSTITUTIONS MILITARY AND ECONOMIC ASSISTANCE TO
PERU.

2. U.S. SECURITY ASSISTANCE TO PERU HELPS TO DISPOSE THIS
MILITARILY RULED COUNTRY MORE FAVORABLY TO OUR OVERALL
INTERESTS, NOTABLY ACCESS TO NATURAL RESOURCES, AND IT
REDUCES WHAT IS OBTAINED FROM COMMUNIST SOURCES.

3. IN TERMS OF THE EFFECTIVENESS OF SUCH ASSISTANCE, IT HAS
HELPED TO KEEP PERU IN THE INTER-AMERICAN DEFENSE SYSTEM AND
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HAS MOLDED FAVORABLY THE ATTITUDE OF MANY OF THE CURRENT AND

ALSO FUTURE OFFICERS WHO RULE AND WILL PROBABLY CONTINUE RULING PERU. THE QUESTION OF COMBAT EFFECTIVENESS HAS BEEN ADDRESSED BY MAAG.

4. U.S. SECURITY ASSISTANCE CONSISTS OF GRANT TRAINING AND FMS CASH-CREDIT SALES. TRAINING EXPOSES PERUVIAN OFFICERS TO U.S. TECHNIQUES AND MATERIEL, INCREASING THE LIKELIHOOD THAT PERU'S ARMED FORCES WILL USE AMERICAN EQUIPMENT AND METHODS.

5. FOLLOWING IS THE REQUESTED EVALUATION OF THE IMPACT OF OTHER U.S. AND INTERNATIONAL FINANCIAL INSTITUTIONS' ECONOMIC ASSISTANCE, THIRD COUNTRY MILITARY AND ECONOMIC ASSISTANCE. THIS EVALUATION CONTAINS THE CAVEAT THAT THERE ARE NO FIRM FIGURES AVAILABLE ON TOTAL FOREIGN MILITARY EQUIPMENT PURCHASES MADE TO DATE BY PERU, NOR DOES THE EMBASSY HAVE ACCESS TO INFORMATION ABOUT THE TERMS AND CONDITIONS OF REPAYMENT OF LOANS EXTENDED FOR MILITARY PURCHASES. THUS THE FOLLOWING IS CONJECTURE, BASED ON THE BEST AVAILABLE, ALBEIT SCANTY, INFORMATION.

6. THE THREE PERUVIAN MILITARY SERVICES' BUDGETS FOR DEFENSE EXPENDITURES AMOUNT TO \$520 MILLION DURING THE CURRENT BIENNium, 1973-74. THIS REPRESENTS APPROXIMATELY 6.9 PERCENT OF GNP AND 13.8 PERCENT OF THE BIENNIAL BUDGET. DURING THE LAST FOUR YEARS, WE ESTIMATE THAT APPROXIMATELY 20 PERCENT OF THE TOTAL DEFENSE EXPENDITURES BUDGET HAS BEEN SPENT ON NEW FOREIGN MILITARY EQUIPMENT AND MATERIEL PURCHASES, OR APPROXIMATELY \$50 MILLION ANNUALLY. THIS IS A CONSERVATIVE FIGURE AND VERY LIKELY WILL BE HIGHER BECAUSE WE KNOW THAT THE SERVICES HAVE PLANS FOR THE PURCHASE OF SUBSTANTIALLY GREATER AMOUNTS OF MATERIEL. IN 1973, PERU AGREED TO PURCHASE \$280 MILLION OF MILITARY GOODS FROM THIRD COUNTRIES, WITH 1973 DELIVERIES FROM THIRD COUNTRIES AMOUNT TO \$72 MILLION. IN ADDITION, FMS PURCHASES CONTRACTED FROM THE U.S. IN FY 74 ARE EXPECTED TO TOTAL \$50 MILLION, WHILE PURCHASES FROM COMMERCIAL U.S. SOURCES WILL AMOUNT TO \$20-25 MILLION MORE.

7. FOREIGN LOANS OFFER ANOTHER INDICATOR OF THE IMPACT OF MILITARY PURCHASES ON THE PERUVIAN BALANCE OF PAYMENTS AND THUS ON THE OVERALL DEBT BURDEN OF THE PERUVIAN ECONOMY. LOAN FIGURES DO
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NOT, HOWEVER, PROVIDE A PRECISE INDICATOR BECAUSE LOANS GRANTED ON COMMERCIAL TERMS (80PERCENT OF ALL LOANS GRANTED BY FOREIGN SOURCES IN 1973) HAVE HAD AN AVERAGE REPAYMENT PERIOD OF 5/25 YEARS WITH A GRACE PERIOD OF TWO YEARS. THUS, MOST OF THE IMPACT OF CURRENT PURCHASES WILL BE DELAYED UNTIL 1975-76 FOR LOANS RECENTLY NEGOTIATED. IN ANY CASE, DURING THE LAST THREE YEARS (1971-73) PERU BORROWED \$1.05 BILLION FROM IFI'S AND GOVERNMENTS FOR IMPORT PURCHASES AND DEVELOPMENT PROJECTS AND AGREED TO PURCHASE \$367

MILLION WORTH OF MILITARY HARDWARE FROM NON-US SOURCES. PRESUMING A DIRECT CORRELATION BETWEEN THESE LOANS AND MILITARY PURCHASES (AND THIS IS, PERHAPS, THE WEAKEST ASSUMPTION IN THIS ANALYSIS), APPROXIMATELY 35 PERCENT OF PERU'S TOTAL LOANS FOR IMPORTS AND PROJECT DEVELOPMENT (THESE FIGURES DO NOT REFLECT REFINANCING LOANS OR DEBT AMORTIZATION) ARE TIED TO SUCH MILITARY PURCHASES. THE MINISTRY OF FINANCE ESTIMATES FOR PERU'S FOREIGN DEBT/EXPORTS RATION FOR THE NEXT THREE YEARS SHOW A PREDICTED DEBT SERVICE AS FOLLOWS:

	DEBT SERVICE	EXPORTS	RATIO
1974	\$322.9 MILLION	\$1,600.0 MILLION	20.2 PERCENT
1975	\$340.5 MILLION	\$1,792.0 MILLION	19.0 PERCENT
1976	\$318.6 MILLION	\$1,950.0 MILLION	16.3 PERCENT

THESE FIGURES ARE NET OF PREPAYMENTS AND REFINANCING WHICH WE ESTIMATED WILL REACH \$250 MILLION ADDITIONALLY EACH YEAR.

8. PERU'S THIRD COUNTRY MILITARY PURCHASES FOR 1971-73 WERE AS FOLLOWS:

	PURCHASES CONTRACTED	DELIVERIES
1971	\$81 MILLION	\$54 MILLION
1972	\$ 6 MILLION	\$65 MILLION
1973	\$280 MILLION	\$72 MILLION
TOTAL	\$367 MILLION	\$191 MILLION

ONE US BANKING SOURCE IN LIMA ESTIMATES THAT PERU WILL AGREE TO FOREIGN MILITARY PURCHASES TOTALING \$600 MILLION IN 1974. WE THINK THIS IS EXAGGERATED, BUT POSSIBLY NOT BY MUCH.

9. THE GOP IS PUBLICLY PREDICINT THAT ADDITIONAL COPPER PRODUCTION AND THE OPENING OF JUNGLE OIL RESERVES SHOULD MAKE AVAILABLE AN ADDITIONAL \$1 BILLION ANNUALLY IN EXPORT REVENUES (IN CURRENT TERMS) BY 1978-80. ASSUMING THIS REVENUE BECOMES AVAILABLE
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ABLE, PERU COULD CERTAINLY BEAR THE ADDITIONAL COST OF \$100 TO \$150 MILLION MORE ANNUALLY FOR FOREIGN MILITARY PURCHASES, ALTHOUGH OBVIOUSLY EACH DOLLAR SPENT ON ARMS REDUCES POTENTIAL ECONOMIC GROWTH THROUGH DENYING THE PRODUCTIVE USE OF THE SAME RESOURCES.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: MILITARY ASSISTANCE, ECONOMIC ASSISTANCE, SECURITY, MILITARY TRAINING, MILITARY BUDGET, EXPORTS, MILITARY SALES, MILITARY CREDIT, DEBT DATA, LOANS
Control Number: n/a
Copy: SINGLE
Draft Date: 21 JUN 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: CollinP0
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974LIMA05010
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D740163-0961
From: LIMA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740625/aaaaavbf.tel
Line Count: 160
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION PM
Original Classification: SECRET
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: SECRET
Previous Handling Restrictions: n/a
Reference: A) STATE 31505; B) LIMA A-62 (CASP), OF MARCH 25; C) POM OF
Review Action: RELEASED, APPROVED
Review Authority: CollinP0
Review Comment: n/a
Review Content Flags:
Review Date: 19 SEP 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <19 SEP 2002 by rowelle0>; APPROVED <14 FEB 2003 by CollinP0>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: SECURITY ASSISTANCE OBJECTIVES AND GUIDELINES FOR PERU
TAGS: EGEN, MASS, PE, US
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005